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DE RUEHSO #0924/01 2361306
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FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC 5670
INFO RUEHBR/AMEMBASSY BRASILIA 6744
RHEHNSC/NSC WASHDC
RUCPDO/USDOC WASHDC 2552
RUEHMN/AMEMBASSY MONTEVIDEO 2135
RUEHBU/AMEMBASSY BUENOS AIRES 2428
RUEHSG/AMEMBASSY SANTIAGO 1852
RUEHLP/AMEMBASSY LA PAZ 2992
RUEHPE/AMEMBASSY LIMA 1051
RUEHCV/AMEMBASSY CARACAS 0370
RUEHBO/AMEMBASSY BOGOTA 1430
RUEHRG/AMCONSUL RECIFE 3106
RUEHRI/AMCONSUL RIO DE JANEIRO 7385
RUEHAC/AMEMBASSY ASUNCION 2745
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 02 SAO PAULO 000924

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR WHA/BSC AND EB/TPP/IPE
STATE PASS TO USTR FOR SCRONIN/MSULLIVAN
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR FEARS
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
USDOC ALSO PASS PTO/OLIA
TREASURY FOR OASIA, DAS LEE AND DDOUGLASS
DOL FOR ILAB MMITTELHAUSER

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [KIPR](#) [EINV](#) [BR](#)

SUBJECT: FIESP Responds to Threat to Brazil's GSP Benefits

¶1. (SBU) Summary. The Federation of Industries of the State of Sao Paulo (FIESP), which represents approximately 34% of Brazil's industrial units and 39% of its manufacturing jobs, has concluded in a soon to be released study that if Brazil were to lose its eligibility for GSP benefits, the country would lose more than 20,000 jobs and at least USD 386 million in exports. The most effected sectors would be the lumber and automotive (automobiles and auto parts) industries, with a combined loss of approximately 8,000 jobs. According to FIESP, the graduation of Brazil from GSP would negatively affect both Brazilian companies and many US companies that have subsidiaries and manufacturing branches located here. End Summary.

¶2. (U) In an as yet-to-be published study, FIESP estimates that approximately 650,000 jobs are related to the production of goods that fall under the GSP program, and if these benefits are not renewed, more than 20,000 of these jobs would be lost. FIESP President Paulo Skaf, in a faxed letter to the Ambassador dated August 16, outlined the impending job losses and other potential negative consequences resulting from GSP exclusion. According to the FIESP study, the two major industries that would be most affected if the GSP benefits were withdrawn would be the lumber and automotive industries, with losses of 4,959 and 2,461 jobs, respectively. The principal products exported by these industries under GSP in 2005 include: (1) automobile parts, USD 223.7 million, (2) lumber, USD 140.0 million, (3) machinery parts, USD 131.2 million, (4) refined copper sheets, USD 107.8 million, (5) refined copper wire, USD 106.7 million, and (6) carpentry and cabinetry items, USD 93.6 million. Other products such as wooden doors and frames, automobile gear boxes, and leather, account for approximately USD 71-79 million each.

13. (U) FIESP argues that both Brazilian and U.S. companies will be negatively affected if GSP benefits are not renewed. Only 9% of Brazilian exports under GSP constitute finished goods for the consumer, while 75% are raw materials or intermediary products. FIESP states that many of these materials are destined for subsidiaries of U.S. owned companies, which if forced to pay higher prices for the raw materials would then be forced to pass the increased cost to the final product. In a recent press interview, Wilson Rocha, Director of Sales and Engineering at TRW, stated that "the exclusion of Brazil would be a hard blow, in a period when the company is already struggling to stay competitive with its products, because of the strong real versus the dollar." Since TRW has contracts of 5 to 7 years, Rocha concluded that the cost increase could not be passed onto the price of the product and the "most difficult thing would be to obtain new contracts."

14. (U) Meanwhile, the press quotes Humberto Barbatto, president of Santa Terezinha Ceramics, a manufacturer of electrical insulators, bemoaning the prospect of increased U.S. tariffs for his products: "We will have serious problems if our products face increased tariffs in the US. Our clients are already tired of hearing us talk about a rise in prices."

15. (U) In a tactical move, last month FIESP opened an office in Washington, DC, which is tasked with lobbying for the renewal of GSP benefits for Brazil. Besides contacting government officials influential in the renewal process, FIESP has aligned itself with two pro-GSP organizations, the Coalition for GSP, and the Brazil GSP Coalition. The Acting Director of the International Relations Department for FIESP, Carlos Cavalcanti, has suggested that the repercussions of GSP benefits not being renewed would be greater in the political arena than in the economic sphere, and that the USG tends to politicize such discussions instead of relying on technical

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considerations. According to Cavalcanti, if GSP is not renewed, the results could be a new era of confrontation and distancing between the US and Brazil.

16. (SBU) Comment: FIESP and other business associations will likely offer many examples of Brazilian businesses being injured should the country be graduated from GSP, and are asserting that many U.S. businesses will likewise be hurt. We expect they will come up with more specific examples of such U.S. businesses as they continue their campaign to prevent the loss of Brazil's GSP benefits. End Comment.

McMullen